

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**BRAZIL**

**INNOVATION LOAN**

**PROGRAM TO SUPPORT MODERNIZATION OF THE  
FEDERAL COURT OF ACCOUNTS**

**(BR-0365)**

**LOAN PROPOSAL**

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## ACRONYMS AND ABBREVIATIONS

ACERI	Asesoria de Cerimonial e de Relações Institucionais [Ceremonies and Institutional Relations Advisory Service]
ARINT	Asesoria de Relações Internacionais [International Relations Advisory Service]
ASCOM	Asesoria de Comunicação Social [Social Communications Advisory Service]
ASPAR	Asesoria Parlamentar [Parliamentary Advisory Service]
CESI	Committee on Environment and Social Impact
CONJUR	Consultoria Jurídica [Legal Consulting Service]
INTOSAI	International Organization of Supreme Audit Institutions
ISA	International Standards on Auditing
ISC	Instituto Serzedello Corrêa [Serzedello Corrêa Institute]
MPPG	Ministry of Planning, Budget, and Administration
OC	Ordinary Capital
PCU	Program coordination unit
SAI	Supreme audit institutions
SECOI	Secretaria de Controle Interno [Secretariat of Internal Control]
SEGECEX	Secretaria-Geral de Controle Externo [General Secretariat of External Control]
SEGEDAM	Secretaria Geral de Administração [General Secretariat of Administration]
SEPLAN	Secretaria de Planejamento e Gestão [Secretariat of Planning and Management]
SEPRES	Secretaria da Presidência [Secretariat of the Office of the President]
SETEC	Secretaria de Tecnologia da Informação [Secretariat of Information Technology]
SGS	Secretaria Geral das Sessões [General Secretariat of Meetings]
TCU	Tribunal de Contas da União [Federal Court of Accounts]



## BRAZIL

### IDB LOANS

APPROVED AS OF JULY 31, 2002

	<i>US\$Thousand</i>	<i>Percent</i>
<b>TOTAL APPROVED</b>	<b>24,639,712</b>	
DISBURSED	18,664,657	75.8%
UNDISBURSED BALANCE	5,975,056	24.2%
CANCELLATIONS	1,388,164	5.6%
PRINCIPAL COLLECTED	6,399,590	26.0%
<b>APPROVED BY FUND</b>		
ORDINARY CAPITAL	22,951,704	93.1%
FUND FOR SPECIAL OPERATIONS	1,558,545	6.3%
OTHER FUNDS	129,464	0.5%
<b>OUTSTANDING DEBT BALANCE</b>	<b>12,265,066</b>	
ORDINARY CAPITAL	11,856,524	96.7%
FUND FOR SPECIAL OPERATIONS	408,024	3.3%
OTHER FUNDS	518	0.0%
<b>APPROVED BY SECTOR</b>		
AGRICULTURE AND FISHERY	978,883	4.0%
INDUSTRY, TOURISM, SCIENCE TECHNOLOGY	6,180,836	25.1%
ENERGY	2,361,782	9.6%
TRANSPORTATION AND COMMUNICATIONS	3,861,842	15.7%
EDUCATION	867,867	3.5%
HEALTH AND SANITATION	3,002,986	12.2%
ENVIRONMENT	612,490	2.5%
URBAN DEVELOPMENT	2,422,249	9.8%
SOCIAL INVESTMENT AND MICROENTERPRISE	2,927,081	11.9%
REFORM PUBLIC SECTOR MODERNIZATION	1,077,615	4.4%
EXPORT FINANCING	244,977	1.0%
PREINVESTMENT AND OTHER	101,103	0.4%

\* Net of cancellations with monetary adjustments and export financing loan collections



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# BRAZIL

## STATUS OF LOANS IN EXECUTION AS OF JULY 31, 2002

(Amounts in US\$ thousands)

APPROVAL PERIOD	NUMBER OF PROJECTS	AMOUNT APPROVED	AMOUNT DISBURSED	% DISBURSED
Before 1996	11	2,419,000	2,190,379	90.55%
1996 - 1997	14	2,493,265	1,365,675	54.77%
1998 - 1999	13	2,700,000	1,171,867	43.40%
2000 - 2001	16	2,601,356	455,476	17.51%
2002	8	685,400	0	0.00%
<b>TOTAL</b>	<b>62</b>	<b>\$10,899,021</b>	<b>\$5,183,397</b>	<b>47.56%</b>

\* Net of Cancellations . Excluding export financing loans.



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## Brazil

### Tentative Lending Program

**2002**

Project Number	Project Name	IDB US\$ Millions	Status
BR0301	Northeast Microenterprise	30.0	APPROVED
BR0355	Santa Catarina Highways Stage IV	150.0	APPROVED
BR0323	Prodetur II Northeast Region	240.0	APPROVED
BR0313	Acre Sustainable Development	64.8	APPROVED
BR0357	Pará Urban Desenvolpemente (para Urbe)	48.0	APPROVED
BR0374	Urban Paraná	100.0	APPROVED
BR0364	Diversity in University	5.0	APPROVED
BR0351	Goiania Water and Sanitation	47.6	APPROVED
BR0365	Modernization Comptroller Office	5.0	
BR0378	Promotion of Ethics and Defense of Public Patrimony	3.0	
*BR0367	Termoacu Co-Generation Power Project	25.0	
*BR0370	Campos Novos Hydroelectric Power Project	75.0	
*BR0377	Electropaulo Capital Expenditures	75.0	
<b>Total - A : 13 Projects</b>		<b>868.4</b>	
*BR0394	Sao Salvador	37.0	
*BR0395	Termonorte	59.2	
<b>Total - B : 2 Projects</b>		<b>96.2</b>	
<b>TOTAL 2002 : 15 Projects</b>		<b>964.6</b>	

**2003**

Project Number	Project Name	IDB US\$ Millions	Status
BR0396	Environmental Rehabilitation Paraibuna	N/A	
BR0372	São Paulo Fiscal Administration	15.0	
BR0324	Ceara Sanitation II	120.0	
BR0373	Culture and Citizenship for Social Inclusion	10.0	
BR0254	Florianopolis-Osorio Highway Moderniz.	322.0	
BR0391	Downtown São Paulo Rehabilitation Procentro	100.4	
BR0302	Fortaleza Urban Transport	86.2	
BR0318	Tourism Development Program Prodetur Sul	200.0	
BR0390	Porto Alegre Socio-Environmental Program	75.0	
BR0397	Environmental Rehabilitation Belo Horizonte	N/A	
BR0369	State Reform Sector Loan	500.0	
<b>Total - A : 11 Projects</b>		<b>1,428.6</b>	
BR0297	National Food/Agricultural Research Syst	30.0	
BR0392	Cadaster and Land Regularization	65.0	
BR0376	Sustainable Development in Amapa	21.0	
BR0375	Urban Transportation Curitiba II	40.0	
*BR0398	Novatrans Energy	36.0	
*BR0399	CEG Gas Distribution	26.1	
		<b>218.1</b>	

	Total - B : 6 Projects	
	TOTAL - 2003 : 17 Projects	1,646.7
	Total Private Sector 2002 - 2003	333.3
	Total Regular Program 2002 - 2003	2,278.0
* Private Sector Project		



# PROGRAM TO SUPPORT MODERNIZATION OF THE FEDERAL COURT OF ACCOUNTS

(BR-0365)

## EXECUTIVE SUMMARY

<b>Borrower:</b>	Federative Republic of Brazil	
<b>Executing agency:</b>	Tribunal de Contas da União [Federal Court of Accounts] (TCU)	
<b>Amount and source:</b>	IDB: (OC)	US\$ 5.000.000
	Local:	US\$ 5.000.000
	Total:	US\$ 10.000.000
<b>Financial terms and conditions:</b>	Amortization period:	20 years
	Grace period:	3 years
	Disbursement period:	3 years
	Interest rate:	variable
	Inspection and supervision:	1.00%
	Credit fee:	0.75%
	Currency:	U.S. dollars from the Single Currency Facility
<b>Objectives:</b>	<p>The general objective of the program is to support the modernization and institutional strengthening of the Tribunal de Contas da União [Federal Court of Accounts] (TCU), increasing the efficiency and effectiveness of its audit functions so as to contribute to the effective and regular administration of federal public resources to the benefit of society.</p>	
<b>Description:</b>	<p>The program is designed as an innovation loan. One of the objectives of an innovation operation is to finance pilot activities that demonstrate the possibilities of adopting a specific focus for the purpose of overcoming a limitation to development. One of the program's objectives is to build up valuable institutional experience. The TCU has undertaken a major effort to address limitations on the high demand for transparency and control in the use of public resources, through a specific focus on improving management. The program's main innovation and learning elements are linked to the targeted objectives. In other words, as the TCU improves its management and control processes by adopting innovative modern management principles, it will increase the technical and managerial</p>	

capacity of its officials and promote dissemination of the results. This will increase the efficiency and effectiveness of its actions and will have a positive impact on the use of public resources.

The program has four components:

**Component I - Audit and Control (US\$3.3 million)** The objective of this component is to improve the timeliness and quality of the TCU's actions through improvements in its audit and control processes. This component will finance activities relating to: (i) modernization of audit methods, improving existing audit tools and techniques and developing new ones; and (ii) expansion of actions in innovative areas: fiscal responsibility and control of utilities regulations.

**Component II - Quality and Management (US\$0.8 million)** The objective of this component is to consolidate a management outcomes model that embraces the principles of total quality management, strategic planning, results-based management, and knowledge management that will help the TCU respond more adequately to society's demands. This component will finance activities relating to: (i) improving the management outcomes system, including the measurement and evaluation of institutional outcomes and integration of the draft budget into the planning system, resulting in an integrated multiyear plan; and (ii) improving knowledge management instruments.

**Component III - Staff Development (US\$3.4 million)** The objective of this component is to increase the technical and managerial capacity of officials and to raise the satisfaction level among TCU staff members. This component will finance activities relating to: (i) expansion of professional skills; (ii) development of a staff performance management model; and (iii) streamlining the handling of staff requests.

**Component IV - Public Dialogue (US\$1.1 million)** The objective of this component is to increase dialogue by disseminating information about control actions and their outcomes, and strengthening integration with the National Congress, territorial public officials of the TCU, and civil society. This component will finance activities relating to: (i) management of the institution's image; (ii) incentive mechanisms for societal control; (iii) instruments to improve relations with the National Congress; and (iv) education programs on external audits for public managers.

**The Bank's  
country and  
sector strategy:**

The Bank's action in Brazil is notable for its involvement in areas identified as priorities by the government, and for its innovative approach. The Bank's strategy, which is presented in the country strategy for 2000-2002, includes strengthening the reform and

paper for 2000-2003, includes promoting the reform and modernization of the state at the federal, state, and municipal levels. The Program to Support Modernization of the Federal Court of Accounts is consistent with the Bank's strategy, specifically by strengthening the role of external audits of public accounts, thereby increasing transparency and societal control over the actions of government institutions.

**Environmental and social review:**

The Committee on Environment and Social Impact (CESI) approved the profile of this operation on 8 March 2002. CESI recommended verifying that each type of activity financed by the operation is used by the operation to support the executing agency in carrying out its responsibilities with respect to compliance with Brazil's environmental standards.

As this is essentially an institutional strengthening program, and in light of the type of activities to be financed, no environmental impacts are expected as a result of program execution. The program is expected to have a positive influence on social matters through the promotion of transparency and societal control of public accounts, by promoting and disclosing actions taken by audit entities.

**Benefits:**

By supporting activities that aim to improve account audit and control processes, thereby increasing the efficiency and effectiveness of the TCU's audit operations, it is expected that public resources will be better used and ultimately will translate into the provision of timely and high-quality services for citizens.

A strengthened TCU will play an important role in monitoring compliance with the standards of the Fiscal Responsibility Act. The new Act will allow for a permanent fiscal adjustment in Brazil once the fiscal discipline introduced by the Act strengthens the financial position of national agencies.

The program will also help establish a modern control agency based on a management outcomes model that will enable it to explore new control modalities. This will result in increased efficiency in responding rapidly to growing demands for control and monitoring of fiscal management, ensuring the foundations for fiscal balance within a process of state reform.

**Risks:**

Under the innovation loan modality, Court authorities will have the flexibility to adopt a range of innovative management procedures and can change existing practices as necessary to achieve their goals.

The main risk associated with this approach is the possibility that the selected processes may be inadequate for achieving the established goals. Because this is an innovation loan, and to limit this risk, the

Bank will work closely with the TCU authorities through an intensive process of monitoring and supervision, to evaluate the procedures used and to assist in finding new alternatives if initial results prove unsatisfactory. Likewise, since the TCU is viewed as one of the most competent entities in Brazil's public sector, the broad dissemination of the results of the TCU's quality program will increase the incentive to achieve the proposed goals.

**Special  
contractual  
clauses:**

The executing agency must comply, in a manner satisfactory to the Bank, with the act establishing the program coordinating unit (PCU) and assign support personnel to the PCU as a condition precedent to the first disbursement of the financing resources (paragraph 3.3). As an additional special condition, prior to the first disbursement the TCU will present an adequate financial and accounting system to record transactions made using program resources (paragraph 3.11).

**Poverty-  
targeting and  
social sector  
classification:**

This operation does not qualify as a social equity enhancing project, as described in the key objectives for Bank activities set forth in the report on the Eighth General Increase in Resources (document AB-1704).

**Exceptions to  
Bank policy:**

N/A.

**Procurement:**

Procurement of goods and contracting of services will be handled in conformity with Bank procedures. International competitive bidding will be required for procurement of goods valued at US\$350,000 or more, and consulting services valued at more than US\$200,000. Price will be used as a criterion for the selection of service providers, in accordance with the provisions of document GN-1679-3. When selected is based on technology and price, the price may not be weighted above 20% among the selection factors. To facilitate program execution, the Bank will use ex post evaluations for the procurement of goods valued at less than US\$350,000, for contracts with individual consultants valued at under US\$50,000 and with consulting firms valued at under US\$100,000.

## I. FRAME OF REFERENCE

### A. The Tribunal de Contas da União [Federal Court of Accounts] (TCU) and external audits of public accounts

#### 1. Background

- 1.1 The 1988 Constitution of the Federative Republic of Brazil states that the external audit of public accounts, which is the responsibility of the National Congress, will be carried out with the support of the Federal Court of Accounts (TCU). The TCU is the agency of the legislative branch responsible for the accounting, financial, budgetary, operational, and accrual accounting audits of the nation, covering direct and indirect government agencies.<sup>1</sup> Table I-1 shows the exclusive powers of the TCU:

**Table I-1: Powers of the TCU**

Section IX, Article 71 of the 1988 Constitution of the Federative Republic of Brazil sets forth the powers of the Federal Court of Accounts:

- To examine the accounts submitted annually by the President of the Republic
- To evaluate and approve direct and indirect government accounts
- For registration purposes, to examine the legality of eligibility documents or recognition of rights (retirements and pensions) of personnel of any title in direct or indirect government service, except for commissioned offices
- On its own initiative or upon the request of the House of Representatives, the Federal Senate, or a technical or investigating committee, to carry out inspections and audits of accounting or financial records, operations, budgets, or national resources among the administrative units of the legislative, executive, and judicial branches
- To audit national accounts of supranational companies in which the federal government holds a direct or indirect equity interest
- To audit the use of any resource transferred by the federal government through an agreement, accord, adjustment, or other similar instruments to the state, the federal district, or the municipalities
- To provide reports requested by the National Congress concerning audits of accounting or financial records, operations, budgets, and national resources and concerning the outcomes of the audits and inspections performed
- To apply the penalties provided by law to those responsible, in case of illegal spending or accounting irregularities
- To set the deadlines by which a unit or agency must take the necessary steps to comply fully with the law, if any instances of illegality should be confirmed
- To inform the appropriate authorities of any irregularities or abuses that come to light.

- 1.2 As a technical external auditing institution, it is the responsibility of the TCU to evaluate and approve the accounts of managers and others responsible for public

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<sup>1</sup> Direct administration covers ministries and independent agencies, while indirect administration includes foundations, public companies, and semi-public corporations.

goods and government assets, and the accounts of those claiming a loss, misplacement, or other irregularity that results in harm to the public treasury. The TCU is also responsible for performing audits and inspections in the direct and indirect administrative units of the three branches of the national government, at its own initiative or upon request of the National Congress.

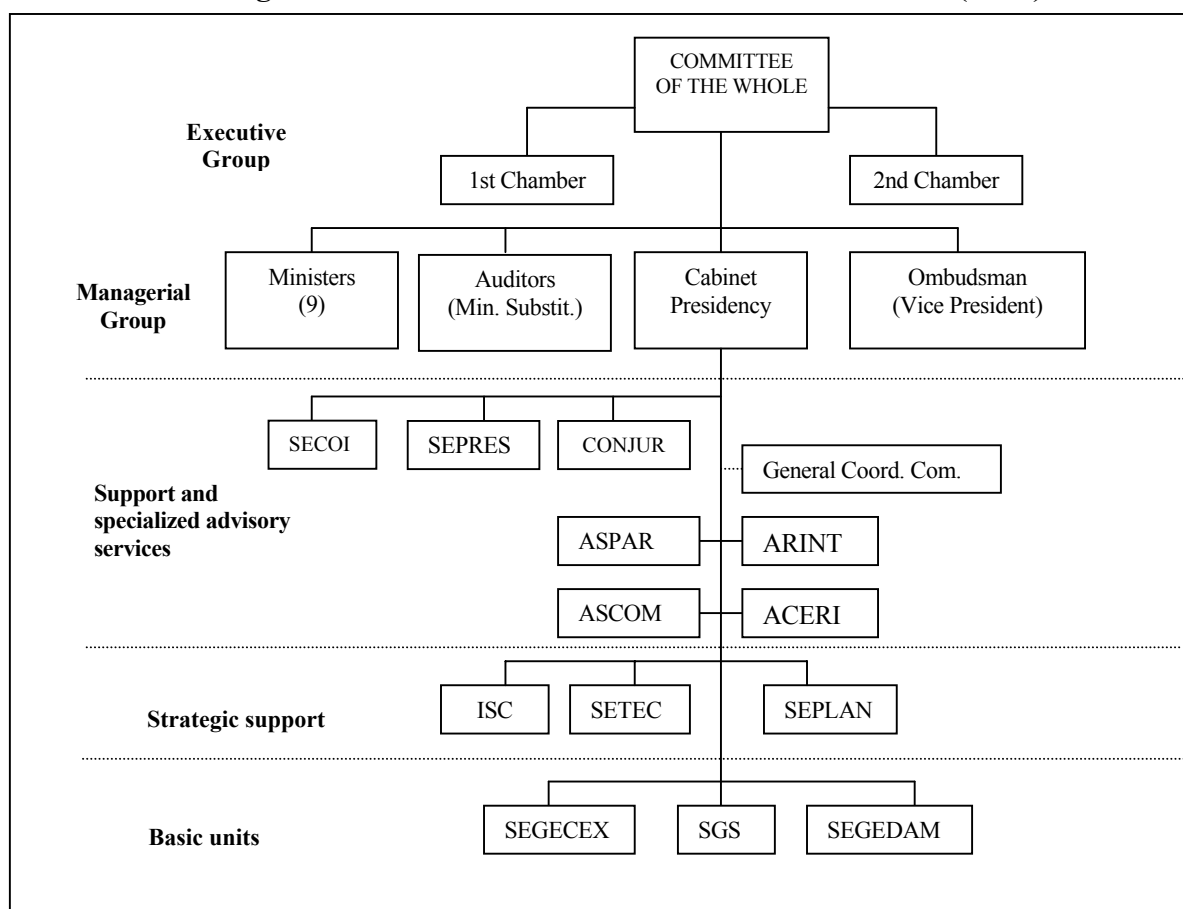
- 1.3 The TCU's jurisdiction covers the entire country, including the 2,559 units of direct and indirect federal public administration. The control of the TCU also extends to 26 states, 5,561 municipios, and the Federal District, with respect to the application of decentralized federal resources through accords, agreements, adjustments, or other instruments.
- 1.4 It is important to note that at the state and municipal level, external control is defined in the state constitutions and municipal charters. The State Courts of Accounts are responsible for this control in 26 Brazilian states and the Federal District, while the Municipal Courts of Accounts hold this responsibility in six municipios.

## **2. Structure and functioning of the TCU**

- 1.5 The main offices of the TCU are located in Brasilia. The TCU has a regional secretariat in each state. Table I-2 presents the organizational chart of the central structure, indicating the different secretariats and advisory bodies. Senior management of the TCU comprises the *executive* group and the *managerial* group. The executive group includes the Committee of the Whole, the First Chamber, and the Second Chamber, where judgments are rendered. There are nine ministers (six elected by the National Congress, three by the President of the Republic) and three auditors. The Committee of the Whole is made up of all the ministers, and is presided over by the president of the TCU. The Chambers are made up of four ministers and one or two auditors, as necessary. The First Chamber is presided over by the vice president of the TCU, and the Second Chamber by the ranking minister. The departments of the managerial authority group serve as support and technical advisory unit for the ministers and auditors, and for the offices of the president, vice president, and ombudsman.
- 1.6 The deliberations of the TCU are generally held in the Committee of the Whole or in its two chambers. The Committee of the Whole and its two chambers meet from 17 January to 16 December each year in ordinary sessions, and in extraordinary sessions as needed.
- 1.7 The TCU has a secretariat that carries out the technical, administrative, and operational activities needed for the full exercise of the TCU's powers. The secretariat is made up of *specialized advisory units*, *strategic support units*, and *basic units*.

- 1.8 The specialized advisory units are: the Secretariat of Internal Control (SECOI), the Secretariat of the Office of the President (SEPRES), the Legal Consulting Service (CONJUR) and the Social Communications Advisory Service (ASCOM), the Ceremonies and Institutional Relations Advisory Service (ACERI), the International Relations Advisory Service (ARINT), and the Parliamentary Advisory Service (ASPAR). The strategic support units are made up of the Secretariat of Planning and Management (SEPLAN), the Secretariat of Information Technology (SETEC), and the Serzedello Carrêa Institute (ISC). The basic units include the General Secretariats of External Control (SEGECEX), Meetings (SGS), and Administration (SEGEDAM).

**Table I-2: Organizational Chart of the Federal Court of Accounts (TCU)**



- 1.9 In terms of institutional capacity, the TCU has a number of strengths. The ministers rotate into the presidency every two years, and the order in which the ministers will serve as president is clearly defined in advance. Staff positions within the TCU are filled by competition. Most of the staff are career personnel and the salary structure

is higher than in other institutions of the federal government, which provides greater staffing stability. Additionally, the TCU has developed advanced internal control and external audit systems.

- 1.10 A total of 2,120 positions is provided for the Secretariat of the TCU, a limit that is being approached gradually. In late 2001, there was a total of 2,051 staff members, with 1,067 financial and external control analysts, 964 financial and external control counselors, and 20 assistants. The headquarters has a total of 1,427 staff members, and the regional offices have 624.
- 1.11 However, after gradually increasing in face value until 1998, the TCU's budget has experienced a sharp decline (see Table I-3). Despite a significant recovery in its financing in 2001, the proportion of the budget devoted to the TCU continue to be far lower than the average levels over the past decade. One lesson learned from supreme audit institutions that are members of the International Organization of Supreme Audit Institutions (INTOSAI) is that to ensure independence and adequate scope, the budget of the supreme audit institution must be a constant percentage of the government's budget. Although the budget of the TCU is smaller in face value than in prior years, it believes that it can perform quality work while using innovative procedures to carry out its mandate.

**Table I-3: Budget of the TCU**

	<b>Percentage of the federal budget</b>
<b>1996</b>	0.092
<b>1997</b>	0.067
<b>1998</b>	0.089
<b>1999</b>	0.055
<b>2000</b>	0.036
<b>2001</b>	0.040

- 1.12 With regard to performing its task, the TCU periodically receives accounting documentation and financial information relating to the activities of the units under its jurisdiction. These data are analyzed through investigations and reviews of the accounts rendered. The accounts are verified according to principles of legality, legitimacy, economy, efficiency, and effectiveness. The control exercised through the investigations and reviews of the accounts is considered an ex-post control.
- 1.13 The TCU also performs routine inspections and audits, as well as specific and occasional ones. The inspection and auditing work cannot be inhibited in any way.



No process, document, or information can be concealed<sup>2</sup> under any pretext, and the TCU is authorized as a precaution temporarily to suspend managers who cause problems or delay the investigation work.

- 1.14 The TCU is authorized to apply a broad range of sanctions against those responsible, in case of illegal spending, account irregularity, or fraudulent bidding. These sanctions include fines, temporary or permanent suspension from public office, freezing of assets, and banning from participation in public bidding.

### **3. Recent changes**

- 1.15 The TCU is going through a transition and reform process toward modernization, seeking to position itself as a leading institution in its field. The modernization process is influenced by a general context of austerity in the public sector, by new powers attributed to the TCU by law, and by greater societal demand for transparency and efficiency in public administration.
- 1.16 The organization took a first step toward modernization by preparing the Strategic Plan of the TCU in 1999. The plan's objective is to improve the TCU's actions in carrying out its constitutional responsibilities, which remain to be fully exercised owing to a lack of resources. In the strategic plan, the external control activity—the rationale for the Court—takes on a preponderant role with regard to strengthening the institution. The plan expresses the urgency attached to the process of improving techniques used in control operations. The expectation is that such improvements will allow for a convergence of efforts to achieve greater efficiency in the analysis of and recommendations concerning these processes, and to achieve satisfactory outcomes with regard to monitoring issues of great importance to the Brazilian government.
- 1.17 These important issues are reflected in a series of new laws that have meant an increasing exercise of authority by the TCU. Some of the new responsibilities assigned to the TCU in recent years include the provisions of law presented in Table I-4 below:

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<sup>2</sup> This TCU prerogative is limited only by constitutional guarantees relating to “banking secrecy” and “fiscal secrecy”.

**Table I-4: New responsibilities of the TCU**

<b>Responsibilities</b>	<b>Laws</b>
Decide on representations concerning failure to comply with mandatory notification to municipal councils regarding the transfer of federal funds for the respective municipios.	Law 9.452/97
Monitor and analyze documentation concerning privatization processes.	Law 9.491/97
Create and maintain an Internet site to disseminate data and information concerning public accounts.	Law 9.755/98
Monitor compliance with public finance standards with a view to accountability in fiscal management, emphasizing government compliance with limits on personnel expenditures.	Supplementary Law 101/2000
Issue an individualized prior opinion on the accounts submitted by the President of the Republic, the Presidents of agencies under the legislative branch, the President of the Federal Supreme Court, the presidents of the Superior Courts, and the Chief of the Office of the Public Prosecutor.	Supplementary Law 101/2000
Prosecute and judge administrative violations of public finance laws.	Law 10.028/2000
Monitor the application of resources transferred to the Brazilian Olympic and Paralympic Committees.	Law 10.264/2001
Submit to the Congress's Joint Commission for Planning, Public Budget, and Oversight an analysis and evaluation of the fiscal management reports as provided for in Supplementary Law 101/2000.	Law 10.266/2001, art. 73, section III
Submit to the Congress's Joint Commission for Planning, Public Budget, and Oversight the reports on the fiscal/financial execution of permanent works using fiscal, social security, and investment budgets.	Law 10.266/2001, art. 83
Submit to the Congress, within 15 days following the event, information concerning indications of serious irregularities identified during the monitoring of contracts, agreements, terms, or tranche releases relating to works in the 2002 budget.	Law 10.266/2001, art. 83

- 1.18 Among the TCU's new powers is the National Privatization Program, begun in 1999, and the subsequent creation of regulatory agencies in telecommunications, electricity, water resources, health, transportation, and oil, which required the Court to engage in additional oversight efforts to ensure the regularity of the procedures. The TCU has set up a special unit to take preventive control measures during privatization and concession processes so as to ensure the quality of the services provided. This called for a group of experts specialized in the various areas to be monitored.
- 1.19 Another element that had a significant impact on the work of the TCU was the approval of the Fiscal Responsibility Act in 2000. The act establishes a code of conduct for public administrators, defining standards and limits for the government's revenue authorities. The Fiscal Responsibility Act is a tool to help those in government to administer public resources within a framework of clear and precise rules applied to all administrators of public resources and in all areas of government, relating to the management of revenues and public spending as well as public assets. The aim of the act is to increase transparency in the management of public spending, allowing market mechanisms and the political process to serve as instruments to control and penalize those in government who fail to act appropriately.

- 1.20 The standards and principles established by the Fiscal Responsibility Act include: (i) limits on staff expense; (ii) limits on public-sector borrowing; (iii) definition of annual fiscal targets; (iv) an equalization mechanism for ongoing expenses; and (v) a mechanism to control public finances during election periods. Compliance with these new rules will allow for ongoing fiscal adjustment in Brazil once the fiscal discipline introduced by the act strengthens the financial position of national agencies. Monitoring compliance with the standards defined in the act is the responsibility of the legislative branch, directly or with the assistance of the Courts of Accounts, the internal control system of each branch, and the public prosecutor.
- 1.21 Given the nature of the changes required under the Fiscal Responsibility Act, the Court adopted two measures: (a) the creation of a working group to conduct studies of the act's impact on the Court's monitoring operations and to offer proposals concerning possible adjustments in its internal procedures; and (b) preparation and dissemination of TCU Resolution 142/2001, to disseminate and support the act's procedures among TCU staff and to provide technical discussion of the issue.
- 1.22 In addition to the new responsibilities established by law, a growing demand and interest on the part of the citizens in recent years has increased the number of complaints submitted to the TCU directly or through the Congress. To carry out its institutional mission, the TCU must implement external control actions that respond in a more timely fashion to the demands made by society with respect to public spending issues. Some of the institutional communication initiatives implemented to date include: a quarterly *Court Review*; consultation, via the Internet, on progress made in these processes; consultation on the Court's jurisprudence; training agreements with other government organizations; a citizen services department; and a news sheet intended specifically for the Congress, the *TCU Bulletin*.
- 1.23 In this context, the steady and increasing demand for the TCU's services means that there is an urgent need to set priorities, to innovate, streamline, and work cooperatively to increase productivity. Faced with this challenge, the institution is better situated than many others. In 1999, the Court was among the 60 of 800 federal government entities that qualified for the Quality in the Public Sector program, part of the 2000-2003 multiyear plan of the Secretariat of Management within the Ministry of Planning, Budget, and Administration (MPPG). Under this program, federal government agencies carry out a self-evaluation of their performance in seven administrative areas. The quality concept used is based the establishment of an efficient leadership system that ensures consistency and uniformity in the organization's activities, clearly defining the clients who are the various consumers of public services, and the expected outcomes by targets; the information management needed to measure benchmarks; and planning and monitoring actions. A summary description of this innovative program and its evaluation scoring method is presented in the next section of this document.

- 1.24 Despite its distinguished position within the quality program, the Court has acknowledged the need to take further steps to improve its response capacity to the growing and constant demand for its services. The TCU must “have a participatory management style, focused on rapid and simple results” and “be aware of the importance and the need continually to seek out new approaches and procedures for doing things, so as to meet the new functions and demands of Brazil’s reality.”<sup>3</sup>
- 1.25 The guideline plans for 2000 and 2001 favored the distribution of resources to three priority programs: external control; quality and management; and staff development, introducing key issues in support of entrepreneurial management. As part of its program, the TCU is developing computerized tools and improving its external control and management processes, notably with the implementation of a planning and management system that seeks, among other things, to promote the more rational use of available resources, with a view to achieving better results in its activities. The new guideline plan for 2002 adds a citizen-based focus on the Court’s institutional mission, signaling that its main function is to ensure the effective and regular administration of public resources for the benefit of society.
- 1.26 However, faced with the growing demand on the part of society and its representatives for the Court’s services, the steps taken so far are insufficient. Table I-5 shows the upward trend over the past four years in the number of control actions undertaken, and the increase in the number of actions concluded.

**Table I-5: Demand of TCU actions**

<b>Number of control actions undertaken</b>			
<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
6,157	7,731	7,829	8,596
Change	25.5%	1.2%	9.7%
<b>Total increase 44%</b>			
<b>Consolidated number of actions adjudicated or concluded*</b>			
10,640	9,779	11,940	12,172
Change	-9.19%	22.1%	1.94%
Index of procedures adjudicated/total number of procedures	26%	52%	41%
<b>Total increase 14%</b>			

\* The actions considered or concluded in a year include actions postponed from prior years.

<sup>3</sup> Relatório de Gestão 2001. Tribunal de Contas da União. Brasília — DF. 2002.

## **B. Innovative nature of the program**

- 1.27 The innovation loan instrument was selected for three reasons: (i) to give the TCU greater flexibility in the search for ways to overcome limitations on development; (ii) to be able to use existing performance measurement and dissemination tools and to identify and implement innovation and learning elements; and (iii) to implement ongoing improvements, signaling a change toward management outcomes, constantly monitoring so as not to indicate quantitative targets very early in the process.
- 1.28 The public sector in many countries such as the United Kingdom, France, Canada, New Zealand, Australia, and Finland is undergoing a fundamental restructuring, seeking to provide better services and, at the same time, drastically to reduce their size in response to significant budgetary problems. An important element in this restructuring of the public sector are initiatives undertaken to “reinvent government” and “management outcomes”. The Government of Brazil and the TCU support the view that efficiency in monitoring management outcomes of the departments and the public program is vital for the success of public administration reforms in Brazil. The challenge of obtaining information on program management, which is useful for making budget decisions, and the importance of that information so that the government can learn from its own experience is the key issue. The government is attempting to create a well-managed public sector that is responsible to the public that it serves, achieves the outcomes promised to the citizens, and is capable of doing so in the most efficient manner possible.
- 1.29 The public service quality program is one of the most innovative in Brazil, acting as an instrument for transforming public administration, in the specific area of promoting the quality of public services. The seven quality principles in public administration include: a horizontal organizational structure; customer satisfaction; participatory management; process management; development of human resources; consistency of aims; continuous improvement; and proactive management.
- 1.30 In order to participate in the public service quality program, the TCU must commit to: (i) orient its management practice based on management principles; (ii) perform an annual self-evaluation of its management based on criteria of excellence in public administration; (iii) receive evaluators from other public organizations who will hold meetings to validate the results of the self-evaluation exercise; (iv) develop a plan to improve management based on the strengths and opportunities for improvement identified during the evaluation process; (v) periodically assess user satisfaction in compliance with the survey parameters established by the program; and (vi) provide broad disclosure of its participation in the program, using the program’s logo in its technical and dissemination materials.
- 1.31 Table I-6 presents the areas of evaluation and the point system of the public service quality program.

**Table I-6: Criteria and points**

		<b>Year 2001</b>
<b>Leadership</b>	<b>90</b>	<b>24</b>
1.1 Leadership system	60	
1.2 Public and citizen responsibility	30	
<b>Strategies and plans</b>	<b>90</b>	<b>45</b>
2.1 Formulation of strategies	40	
2.2 Functioning of strategies	50	
<b>Clients</b>	<b>90</b>	<b>28</b>
3.1 Mutual knowledge	40	
3.2 Customer relations	50	
<b>Information</b>	<b>90</b>	<b>45</b>
4.1 Organization's information management	30	
4.2 Management of comparative information	30	
4.3 Critical analysis of overall performance	30	
<b>Human Resources</b>	<b>90</b>	<b>60</b>
5.1 Work systems	30	
5.2 Education, training, and development	30	
5.3 Quality of life	30	
<b>Processes</b>	<b>90</b>	<b>40</b>
6.1 Management of mission-related processes	40	
6.2 Management of support processes	20	
<b>Outcomes</b>	<b>460</b>	<b>120</b>
7.1 Customer-related outcomes	110	
7.2 Budgetary/financial outcomes	110	
7.3 Human resources-related outcomes	80	
7.4 Provider-related outcomes	60	
7.5 Outcomes related to producer services and organizational procedures	100	

\* See the indicators in the Logical Framework.

- 1.32 One objective of an innovation operation is to finance pilot activities that show the possibilities afforded by adopting a specific focus, so as to finance pilot activities that overcome a limitation to development. The TCU has undertaken a major effort to address limitations of addressing a high demand for transparency and accountability in the use of public resources, through a specific focus on improving management outcomes. The program's main innovation and learning elements are linked to the targeted objectives. In other words, as the TCU improves its management and control processes by adopting innovative modern management principles such as total quality management, independent learning structures, and continuous improvement, it will increase the technical and managerial capacity of its officials and promote dissemination of the results. This will increase the efficiency and effectiveness of its actions and will have a positive impact on the use of public resources.

- 1.33 The use of the indicators employed in the public sector quality program ensures that this information is shared with other agencies of the federal government, encouraging other institutions to consider successful processes such as “best practices”, and promoting learning for other control agencies in Brazil’s states and municipalities and abroad.

**C. Bank strategy in the sector**

- 1.34 The Bank’s action in Brazil is notable for its involvement in areas identified as priorities by the government, and for its innovative approach. The Bank’s strategy, which is presented in the country paper for 2000-2003, includes (i) promoting the reform and modernization of the state at the federal, state, and municipal levels; (ii) supporting efforts to improve competitiveness and market access for Brazilian products; (iii) seeking to reduce social inequities and poverty; (iv) addressing environmental and natural resource issues; and (v) supporting regional integration efforts. The Program to Support Modernization of the Federal Court of Accounts is consistent with the first point of the Bank’s strategy, specifically by seeking to strengthen the role of organizations that perform external audits of public accounts, thereby increasing transparency and societal control over the actions of government institutions.
- 1.35 The Bank is already financing programs for modernization of the state at the three levels of government in Brazil. In some states, the National Fiscal Administration Program for Brazilian States (980/OC-BR) finances specific activities in ministries of planning and administration, offices of the public prosecutor, and pilot projects for courts of account in three states, in addition to the ministries of finance.
- 1.36 Based on the growing demand on the part of member countries, the Bank has recently begun to become involved in the issue of supreme audit institutions (SAI), as in the case of Chile (Modernization of the Office of the Comptroller General of the Republic-CH-0170), the Dominican Republic (Program for Modernizing the National Congress and the Office of the Comptroller General-DR-0106), Colombia (Program for Strengthening the Office of the Comptroller General and the Auditor General-CO-0244), and Paraguay (Strengthening the Office of the Comptroller General-ATN/SF-7710-PR). Each of these projects, although presenting different designs and reflecting the different institutional realities in each country, meets the same international standards for supreme audit institutions, including the Declaration of Guidelines on Auditing Precepts issued by INTOSAI, and the International Standards on Auditing issued by the International Federation of Accountants. Additionally, all these projects are in the initial phases of implementation (2001-2002), and it is still early to identify lessons learned.
- 1.37 This program and the program for the promotion of ethics and defense of national assets have been identified as innovation operations and were included in the 2001 Programming Mission Report (CP-1058-10), which the Programming Committee considered on 18 April 2001.

## **II. THE PROGRAM**

### **A. Objectives and description**

- 2.1 The general objective of the program is to support the modernization and institutional strengthening the Federal Court of Accounts, increasing the efficiency and effectiveness of its audit functions so as to contribute to the effective and regular administration of federal public resources to the benefit of society.
- 2.2 The overall results achieved by the program will be: (i) improved compliance with the resolutions and recommendations issued by the TCU; (ii) satisfactory scope with respect to the return on resources invested in the TCU; and (iii) an increase in the TCU's scoring under the "outcomes" criterion of the quality program. Outcomes will be measured in terms of increased in the perception among groups of interest with regard to the TCU's contribution to effective and regular management of public resources.

### **B. Program structure**

- 2.3 The program has four components:

#### **1. Component I: Audit and control (US\$3.263 million)**

- 2.4 The objective of this component is to improve the timeliness and quality of the TCU's actions through improvements in its audit and control processes. This component will finance activities relating to: (i) modernization of audit methods, improving existing audit tools and techniques and developing and implementing new ones; and (ii) expansion of actions in innovative areas. Specifically, in the area of fiscal responsibility, activities relating to improvements in external data capture will be financed, so as to make viable the monitoring actions attributed by law to the TCU. With respect to regulation, investments will be made to help improve the TCU's present activities to monitor the regulation of public services.
- 2.5 The outcomes achieved through this component will be: (i) improvement in terms of the time between the start of a procedure and its final resolution by the TCU, by type of procedure (reduction in the number of days between the date on which a procedure is recorded and the date of its final disposition); (ii) an improvement in the quality index of reports on audit execution (increase in the number of reports prepared in accordance with the quality criteria developed by the TCU over the total number of reports issued); and (iii) an increase in score under the annual "process management" criterion of the TCU's quality program.
- 2.6 The "process management" criterion examines the main aspects of the TCU's internal operations, including the framework of legal procedures, the definition of



its services with a focus on customer needs, and the implementation and operation of its mission-related and support processes. This criterion also analyzes the main procedures of the TCU and improvements to those processes with a view to achieving improved performance and improving service to customer needs. Accordingly, it verifies how practices associated with the administration of mission-related and support processes are evaluated and improved.

## **2. Component II: Quality and management (US\$0.789 million)**

- 2.7 The objective of this component is to consolidate a management outcomes model that embraces the principles of total quality management, strategic planning, results-based management, and knowledge management that will help the TCU respond more adequately to society's demands. This component will finance activities relating to: (i) improving the management outcomes system, including the measurement and evaluation of institutional outcomes and integration of the draft budget into the planning system, resulting in an integrated multiyear plan; and (ii) improving knowledge management instruments.
- 2.8 The outcomes achieved through this component will be an annual increase in the score under the "Strategies and Plans" and "Information and Analysis" criteria of the TCU's quality program. These criteria include the formulation and implementation of the strategic plan.
- 2.9 The "Strategies and Plans" criterion examines how the TCU, based on its vision of the future, formulates its strategies and breaks them down into short-term and long-term plans. The criterion examines specifically how the TCU uses information on customers and on its own performance to lay out strategies, to ensure that those strategies are nurtured and implemented with a view to fulfilling its mission and satisfying interested parties. The criterion also looks at how practices relating to the formulation and functioning of strategies are evaluated and improved.
- 2.10 The "Information and Analysis" criterion examines how the TCU manages information, key benchmarks, and comparative references, as well as the efficient use of critical analysis in its main processes and performance management, primarily in guiding its activities through strategic guidelines. The criterion also looks at how information management practices, comparative information, and critical analysis of overall performance are evaluated and improved.

## **3. Component III: Staff development (US\$3.439 million)**

- 2.11 The objective of this component is to increase the technical and managerial capacity of officials and to raise the satisfaction level among TCU staff members. This component will finance activities relating to: (i) expansion of professional skills; (ii) development of a staff performance management model; and (iii) streamlining the handling of staff requests.

- 2.12 The following benchmarks will be used to measure the outcomes achieved through this component: (i) an increase in the annual score under the “Personnel” criterion of the TCU’s quality program; and (ii) adequate scope of the staff satisfaction level.
- 2.13 The “Personnel” criterion examines how the TCU prepares and encourages staff members to develop and use their full potential. The criterion also looks at efforts to create and maintain an environment that is conducive to performance excellence, with the full participation of the individual and the institution. The criterion also examines how practices relating to the work system, education, training, development and quality of life are evaluated and improved.

#### **4. Component IV: Public dialogue (US\$1.112 million)**

- 2.14 The objective of this component is to increase dialogue by disseminating information about control actions and their outcomes, and strengthening integration with the National Congress, territorial public officials of the TCU, and civil society. The TCU is attempting to facilitate access to information on its activities, using a variety of instruments and mechanisms, to stimulate public dialogue and societal control. Therefore, this component will finance activities relating to: (i) management of the institution’s image; (ii) incentive mechanisms for societal control; (iii) instruments to improve relations with the National Congress; and (iv) education programs on external audits for public managers.
- 2.15 The following benchmarks will be used to measure the outcomes achieved through this component: (i) an increase in the TCU’s annual score under the “Customer Focus” criterion of the quality program; and (ii) an increase in the number of hits on the TCU’s web site, excluding the bidding, procedures, and competitions areas.
- 2.16 The “Customer Focus” criterion examines how the TCU identifies its customers and their respective needs, and anticipates those needs, in carrying out its responsibilities. The criterion also looks at how the TCU disseminates its products and services to strengthen its institutional image. The criterion also examines how the TCU strengthens its relationship with customers and measures and increases their satisfaction, how the TCU verifies practices relating to mutual knowledge, and how customer relations are evaluated and improved.

#### **C. Cost and financing**

- 2.17 The total cost of the operation is US\$10 million. The Bank will provide US\$5 million in financing from Ordinary Capital resources, and the Government of Brazil will contribute US\$5 million. For the development and execution of the operation, the program will finance consulting services for institutional strengthening, training activities, and the development of information systems. The detailed budget by component is presented in Table II-1 below:

**Table II-1: Consolidated budget by component (US\$ thousands)**

<b>Component</b>	<b>IDB/OC</b>	<b>Local</b>	<b>Total</b>	<b>%</b>
<b>1. Program administration</b>		<b>197</b>	<b>197</b>	<b>1.97</b>
<b>2. Component 1: Audit and control</b>	<b>1,512</b>	<b>1,751</b>	<b>3,263</b>	<b>32.63</b>
2.1 Modernization of audit methods	391	43	434	
2.2 Expanding actions into new areas	1,121	1,708	2,829	
<b>3. Quality and management</b>	<b>351</b>	<b>439</b>	<b>790</b>	<b>7.90</b>
3.1 Improving outcomes-based management	0	52	52	
3.2 Improving knowledge management instruments	351	387	738	
<b>4. Staff development</b>	<b>2,007</b>	<b>1,433</b>	<b>3,440</b>	<b>34.4</b>
4.1 Increasing professional skills	1,275	951	2,226	
4.2 Improving the staff performance management model	131	18	149	
4.3 Streamlining the handling of staff requests	601	464	1,065	
<b>5. Public dialogue</b>	<b>742</b>	<b>369</b>	<b>1,111</b>	<b>11.12</b>
5.1 Managing the institutional image	18	3	21	
5.2 Encouraging societal control	207	307	514	
5.3 Instruments to improve relations with Congress	0	2	2	
5.4 Promotion of education campaigns	517	57	574	
<b>6. Contingencies</b>	<b>338</b>	<b>262</b>	<b>600</b>	<b>6.0</b>
<b>SUB-TOTAL</b>	<b>4,950</b>	<b>4,451</b>	<b>9,401</b>	<b>94.0</b>
<b>8. Financial costs</b>	<b>50</b>	<b>549</b>	<b>599</b>	<b>6.0</b>
8.1 Interest	0	510	510	
8.2 Credit fee	0	39	39	
8.3 Inspection and supervision (1%)	50	0	50	
<b>TOTAL</b>	<b>5,000</b>	<b>5,000</b>	<b>10,000</b>	<b>100.0</b>

- 2.18 The Bank's contribution to the project (US\$5 million) will be charged to the Single Currency Facility of Ordinary Capital (OC) in accordance with the conditions described in Table II-2. Resources will be disbursed in United States dollars. The local counterpart (US\$5 million) will be financed with resources from the national budget.

**Table II-2: Terms and conditions of the financing**

Source:	OC
Amount:	US\$5 million
Amortization period:	20 years
Grace period:	3 years
Disbursement period:	3 years
Interest:	variable
Inspection and supervision:	1% of the loan
Credit fee:	0.75% on undisbursed balance

### III. PROGRAM EXECUTION

#### A. Borrower and executing agency

- 3.1 The borrower will be the Federative Republic of Brazil, and the executing agency will be the Federal Court of Accounts (TCU).
- 3.2 The Office of the President of the TCU will coordinate project execution through the management office of the Program to Support the Modernization of the TCU, which will act as the project coordinating unit (PCU). The program calls for positioning the PCU within the organization so that its work is not perceived as foreign to the normal operations of the rest of the institution, and a sense of belonging is gained for the program. The PCU will support program administration and will coordinate the execution of activities to be carried out within the scope of the different technical units participating in the program's four components. A technical group representing the various units of the TCU involved in the program was appointed to support the PCU in this task.
- 3.3 To perform its functions, the PCU will have a general coordinator, an administrative/financial coordinator, a procurement coordinator, and a technical coordinator assigned exclusively to this program. All the technical units participating in the program will appoint a staff member as a contact to support the PCU in carrying out its functions in the respective components. **The act of setting up the PCU and assigning its support staff will be a condition precedent to the first disbursement of the financing resources.**
- 3.4 The main activities that the PCU will carry out are:
  - a. Preparation of annual operating plans for execution and semiannual progress reports on the program;
  - b. Maintaining an adequate accounting and financial system to record transactions undertaken using program resources;
  - c. Opening and maintaining specific and separate bank accounts for managing Bank financing and local counterpart resources;
  - d. Obtaining and managing counterpart resources and processing requests for disbursement of the financing in accordance with Bank procedures (including the establishment of a revolving fund and its successive replenishment);
  - e. Maintaining an adequate file of supporting documentation for disbursement requests submitted to the Bank;

- f. Preparation of the program's financial statements for subsequent auditing by the Federal Internal Control Secretariat, in accordance with Bank requirements;
- g. With assistance from the technical units involved in the program, cooperation in conducting the processes of selecting individual consultants and the professional services firms that will be contracted to carry out the activities planned within the program;
- h. Presentation to the Bank, for its nonobjection, of short-lists and/or proposed short-lists of consulting firms, including terms of reference, a schedule for the performance of activities, and the expected cost for each instance;
- i. Cooperation in procurement and contracting for the goods and services planned for program execution;
- j. Coordination of program component execution; and
- k. Identification, monitoring, and analysis of program goals and benchmarks.

**B. Procurement of goods and services**

- 3.5 Procurement of goods and contracting of services will be handled in conformity with Bank procedures. International competitive bidding will be required for procurement of goods valued at US\$350,000 or more, and consulting services valued at more than US\$200,000. A detailed procurement table is presented in Annex II.
- 3.6 Price will be used as a criterion for the selection of service providers, in accordance with the provisions of document GN-1679-3. When selected is based on technology and price, the price may not be weighted above 20% among the selection factors. To facilitate program execution, the Bank will use ex post evaluations for the procurement of goods valued at less than US\$350,000, for contracts with individual consultants valued at under US\$50,000 and with consulting firms valued at under US\$100,000.
- 3.7 If the ex-post review of the documentation and procedures used for selecting and contacting for consulting services and procurement processes shows inconsistencies with Bank policies, those activities may not be financed with program resources. Additionally, should this situation arise, procurement may revert to the indicated procedures, returning to ex-ante reviews or establishing ex-post reviews for other amounts.
- 3.8 Basic responsibility for procurement procedures rests with the executing agency, which will transfer that authority to the pertinent units for purposes of program operation.

### C. Revolving fund

- 3.9 A revolving fund of up to 5% of the Bank's financing will be established by setting up a special bank account to manage program disbursements. A status report on the revolving fund will be presented 60 days after the end of each six-month period. The PCU will be responsible to the Bank for submitting a detailed report on disbursements and for an analysis of the payments made, keeping accounting records available to the Bank and its auditors to conduct checks and audits in accordance with contractual conditions, as necessary. The PCU will use the integrated federal financial administration system for budgetary and financial control of the program.

### D. Execution period and disbursement schedule

- 3.10 The program will be executed over a 30-month period, with a disbursement period of 36 months, in accordance with the following schedule:

Table III-1: Disbursement schedule - US\$million

Source	Year 1	Year 2	Year 3	Total
IDB	1.699	2.699	602	5.000
Counterpart	1.568	2.577	855	5.000
Total	3.267	5.276	1.457	10.000
% of total	32.7%	52.8%	14.5%	100.0%

### E. Internal control, financial statements, and auditing

- 3.11 The TCU will maintain an adequate system of internal accounting and administrative controls. The project team evaluated the system during its main mission. The TCU uses the integrated federal financial administration system, which provides adequate budgetary and financial control. The PCU will be responsible for presenting a system organized in a way that provides the documentation necessary to verify transactions and facilitates the timely preparation of financial statements and reports. The program's records will be kept in such a way that: (i) sums received from different sources can be identified; (ii) investments using loan resources and counterpart funds are recorded in accordance with the account categories that the Bank will approve; (iii) the details necessary to identify the goods procured and the services contracted are included; (iv) investment costs in each category and the progress in the activities are indicated. **An adequate accounting system to record transactions made using program resources will be a special execution condition precedent to the first disbursement of financing resources.**
- 3.12 Each year, within a period of 120 days following the close of each fiscal year, the executing agency will submit the audited financial statements of the program in

accordance with the requirements of the Bank. The program's financial statements will be audited by the Federal Internal Control Secretariat in accordance with the requirements of the Bank. The costs of the external audit will be financed with resources of the Bank loan.

**F. Monitoring and evaluation**

3.13 Program monitoring and supervision will be subject to the current procedures of the Bank, including a midterm review. The midterm evaluation will be performed after 20 months of program execution or when 50% of the resources of the loan have been disbursed, whichever is first. The objective of this evaluation is to verify the degree to which the program's targets have been achieved, detecting problems and introducing corrective measures to ensure that the objectives are attained. Additionally, the evaluation may also analyze whether the budget inputs are consistent with the results achieved. Given the innovative nature of this operation, and in order to capture the impacts of the activities in terms of learning and innovation, progress reports must be consistent with the indicators and expected outcomes in the quality program in the Brazilian civil service, and with the indicators set forth in the Logical Framework (Annex I), to permit rapid verification and joint review of the outcomes.

3.14 Additionally, the executing agency will submit the following reports to the Bank:

- a. **Initial report.** This report will include a detailed work plan and will contain at least the following information: (i) a detailed work schedule of the components; (ii) a plan for hiring consultants; and (iii) a training plan.
- b. **Semiannual execution reports.** During program execution, semiannual progress reports with the following minimum content will be presented to the Bank 60 days after the end of each six-month period: (i) the status of constant goal fulfillment of the plans and work schedule for the previous six-month period; (ii) the detailed work plan for the following six months, containing the main goals and objectives; and (iii) the main successes or problems observed by the PCU that may jeopardize goal fulfillment, including the recommendations to resolve such problems.
- c. **Final report.** Ninety days after the final disbursement of the financing, the executing agency will submit the final program report, which will contain at least the following information: (i) an analysis of the outcomes achieved through the program, including positive lessons learned and their rationale; (ii) the main elements that did not function well and obstacles to program execution; and (iii) the conclusions and recommendations that may be taken into account in preparing future operations with characteristics similar to this program.

## **IV. VIABILITY AND RISKS**

### **A. Institutional viability**

- 4.1 The government has made the reform and modernization of its institutions a policy priority, particularly with regard to control of public accounts, in order to contribute to fiscal adjustment efforts. Institutional viability is sustained by the commitment to respond to demands to improve control of public accounts and to reduce the possibility of corruption, fraud, and misuse of public assets and moneys.
- 4.2 The Federal Court of Accounts is clearly interested in and committed to program execution. This is substantiated by the fact that during the design and preparation stages of the program, a significant number of career professionals from the institution took part in various exercises, workshops, and technical meetings, and achieved a high degree of consensus. This resulted in a strengthening of the institution that, despite its scant experience in managing programs of this type, will ensure its capacity as an executing agency.

### **B. Social and environmental impact**

- 4.3 The Committee on Environment and Social Impact (CESI) approved the Profile of this operation on 8 March 2002. CESI recommended verifying that each type of activity financed by the operation is used by the operation to support the executing agency in carrying out its responsibilities with respect to compliance with Brazil's environmental standards.
- 4.4 As this is essentially an institutional strengthening program, and in light of the type of activities to be financed, no environmental impacts are expected as a result of program execution. The program is expected to have a positive influence on social matters through the promotion of transparency and societal control of public accounts, by promoting and disclosing actions taken by audit entities.

### **C. Benefits**

- 4.5 The TCU is the prosecutor and judge of government management and, at the same time, the partner of public administration and society. By supporting activities that aim to improve account audit and control processes, thereby increasing the efficiency and effectiveness of the TCU's audit operations, it is expected that public resources will be better used and ultimately will translate into the provision of timely and high-quality services for citizens
- 4.6 A strengthened TCU will play an important role in monitoring compliance with the standards of the Fiscal Responsibility Act. The new Act will allow for a permanent



fiscal adjustment in Brazil once the fiscal discipline introduced by the Act strengthens the financial position of national agencies.

- 4.7 The program will also help establish a modern control agency based on a management outcomes model that will enable it to explore new control modalities. This will result in increased efficiency in responding rapidly to growing demands for control and monitoring of fiscal management, ensuring the foundations for fiscal balance within a process of state reform.
- 4.8 Potential benefits deriving from modernization of the Court include more effective auditing in areas of national interest, and an improvement in the TCU's channels of communication with society and the National Congress. Greater fiscal transparency in the public sector contributes to and strengthens the democratic process.

#### **D. Risks**

- 4.9 The objective of this project is to support the modernization and institutional strengthening of the TCU, and its progress toward achieving this objective will be measured through a series of annual goals established in the public sector quality program. Under the innovation loan modality, Court authorities will have the flexibility to adopt a range of innovative management procedures and can change existing practices as necessary to achieve their goals.
- 4.10 The main risk associated with this approach is the possibility that processes may be inadequate for achieving the established goals. To limit this risk, the Bank will work closely with the TCU authorities through an intensive process of monitoring and supervision, to evaluate the procedures used and to assist in finding new alternatives if initial results prove unsatisfactory. Likewise, since the TCU is viewed as one of the most competent entities in Brazil's public sector, the broad dissemination of the results of the TCU's quality program will increase the incentive to achieve the proposed goals.

### LOGICAL FRAMEWORK

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<b>GOAL</b> To contribute to more effective and efficient management of federal public resources to the benefit of society.	Periodic acknowledgment by relevant institutions and social groups of the TCU's contribution to effective and efficient management of public resources.	Opinion surveys conducted at the start of the project to generate baseline information, and at the end of each year of program execution.	Institutions and social groups remain interested in the efficient use of public resources.
<b>PURPOSE</b> To support the modernization and institutional strengthening of the Federal Court of Accounts, increasing the efficiency and effectiveness of its audit functions.	Annual index of fulfillment of resolutions and recommendations made by the TCU (increase in the total number of resolutions and recommendations fulfilled/total number of resolutions and recommendations) increases by 1% per year.	Basic information recorded in the Radar System. Annual report on TCU activities.	Consensus of the Committee of the Whole of TCU ministers regarding the priorities and objectives of external controls. The National Congress and the federal government uses the information generated by the TCU in their decisions to approve and manage public expenditure. Customers are open to expressing their expectations concerning the Court's actions. The purpose of validating the evaluation is to verify relevant aspects obtained for self-evaluation, creating a consensus with respect to the results.
	Annual rate of return on resources invested in the TCU (total financial outcomes of audit actions/total budgetary resources of the TCU) ( <i>the coefficient is no less than 2 per year</i> )	Basic information recorded in the Radar System. Annual report on TCU activities.	
	Annual increase in the TCU's score under the "Results" criterion of the quality program from 120/460 (26.1%) in the first year.	Basic information recorded in the TCU's management outcomes self-evaluation report, performed internally within the TCU and sent annually to the federal government's Ministry of Planning, Budget, and Administration for recording purposes.	

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p><b>COMPONENTS</b></p> <p><b>1. Audit and control</b></p> <p>To help improve the timeliness and quality of the TCU's actions by improving its audit and control processes.</p>	<p>Reduction in the average time between the start of a procedure and its final resolution by the TCU, in at least half of the types of existing procedures, by the end of the program (reduction in the number of days between the dates of initial registration and final disposition.)</p>	<p>Basic information recorded in the Procedures and Radar systems.</p> <p>Annual administrative reports.</p>	<p>In its deliberations, the TCU's Committee of the Whole makes use of recommendations made by the technical units.</p> <p>The institutional culture of the TCU accepts the new procedures in a timely and flexible manner.</p> <p>The purpose of validating the evaluation is to verify relevant aspects obtained for self-evaluation, creating a consensus with respect to the results.</p>
	<p>Quality index of reports prepared following audit execution each year (increase in the total number of reports in compliance with the quality criteria/total number of reports: 30% for the first year and 60% by the end of the program).</p>	<p>Report of the quality measurement system.</p>	
	<p>Annual increase in the TCU's score under the "Process Management" criterion of the quality program, from 40/90 (44.4%) in 2001.</p>	<p>Basic information recorded in the TCU's management outcomes self-evaluation report, performed internally within the TCU and sent annually to the federal government's Ministry of Planning, Budget, and Administration for recording purposes.</p>	

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p><b>2. Quality and management</b></p> <p>To consolidate a management outcomes model that embraces the principles of total quality management, planning, results-based management, and knowledge management that will help the TCU respond more adequately to society's demands.</p>	<p>8,500 proceedings adjudicated or analyzed, with final dispositions issued at the end of the first year, except for administrative proceedings.</p> <p>Annual increase in the TCU's score under the "Strategies and Plans" criterion of the quality program from 45/90 (50%) in 2001, and under the "Information and Analysis" criterion from 45/90 (50%) in 2001.</p> <p>Upon project completion, a final index of 40% of proceedings adjudicated or final dispositions reached/total number of proceedings recorded in the year, added to the proceedings accumulated as of 31 December of the previous year.</p>	<p>TCU administrative report for 2002.</p> <p>Basic information recorded in the TCU's management outcomes self-evaluation report, performed internally within the TCU and sent annually to the federal government's Ministry of Planning, Budget, and Administration for recording purposes.</p>	<p>Participation of the ministers in the planning process.</p> <p>The procedures selected are adequate for achieving the targeted goals.</p> <p>The purpose of validating the evaluation is to verify relevant aspects obtained for self-evaluation, creating a consensus with respect to the results.</p>
<p><b>3. Staff development</b></p> <p>To expand the technical and managerial capacity of officials and to increase the satisfaction level of TCU staff members.</p>	<p>A 72% satisfaction index among staff members regarding organizational capacity and the working environment at the end of the first year.</p> <p>Annual increase in the TCU's score under the "Human Resources Management" criterion of the quality program from 60/90 (66.7%) in 2001.</p> <p>The retention rate among trained professional staff members is 90% at the end of the program.</p>	<p>Opinion survey conducted among TCU staff members.</p> <p>Basic information recorded in the TCU's management outcomes self-evaluation report, performed internally within the TCU and sent annually to the federal government's Ministry of Planning, Budget, and Administration for recording purposes.</p>	<p>Investing in and developing staff members are essential to consolidating and ensuring the TCU's reputation for excellence.</p> <p>Motivation is a driving factor behind production and work quality.</p> <p>Periodic evaluation by evaluators from other public organizations that will hold meetings to validate the self-evaluation, in validation of the process.</p>

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p><b>4. Public dialogue</b></p> <p>To increase dialogue through dissemination of audit actions and their outcomes and strengthening the integration with the National Congress, territorial public officials of the TCU, and civil society.</p>	<p>Annual increase in the TCU's score under the "Customer Focus" criterion (which includes relations with the National Congress and public officials) of the quality program from 28/90 (31.1%) in 2001.</p> <p>Increase in the number of hits on the TCU's web site, excluding the bidding, procedures, and competitions areas, from the end of the first six-month period of project execution through project completion.</p>	<p>The TCU's self-evaluation report on customer management, performed internally within the TCU and sent annually to the federal government's Ministry of Planning, Budget, and Administration for recording purposes.</p> <p>Basic information stored in the access log of each page.</p>	<p>There is unmet demand for institutional information and for the outcomes achieved by the Court.</p>

## PROCUREMENT TABLE

### PROGRAM TO SUPPORT MODERNIZATION OF THE FEDERAL COURT OF ACCOUNTS

Main procurement of the program	Financing (US\$ 000)		Amounts and Number of Contracts**							Type of bidding
	IDB	Local	1	Contracts	2	Contracts	3	Contracts	Total	
<b>1. Consulting services</b>	2,769	1,683							<b>4,452</b>	
Local			891	4	1,610	15	570	17	3,071	LCB
International			870	3	511	1	0		1,381	ICB
<b>2. Courses</b>	573	1,338							<b>1,911</b>	
Local			192	6	1,250	14	220	8	1,662	LCB
International			0		249	1	0		249	ICB
<b>3. Hardware and software</b>	887	841							<b>1,728</b>	
Local			77	2	0				77	LCB
International			1,000	2	651	1	0		1,651	ICB
<b>4. Materials</b>	382	129	16	2	495	11	0		511	LCB

\* LCB: Local competitive bidding  
ICB: International competitive bidding

\*\* Note: A much more detailed procurement plan will be sent to the Country Office as soon as the operation is approved.